

# The Case for Business Cases

# Topic Objectives

- Background & Rationale
- The “Who, What, When, Where, & How”
- Elements of a business case
- Basic methodology
- Capturing business case information within the project portfolio tool
- Resources

# Background & Rationale

- Varying levels of understanding and skill in developing and documenting business cases
- Develop a common set of terms and definitions – especially in regards to the PPM tool
- Greater emphasis on business cases in the project approval process

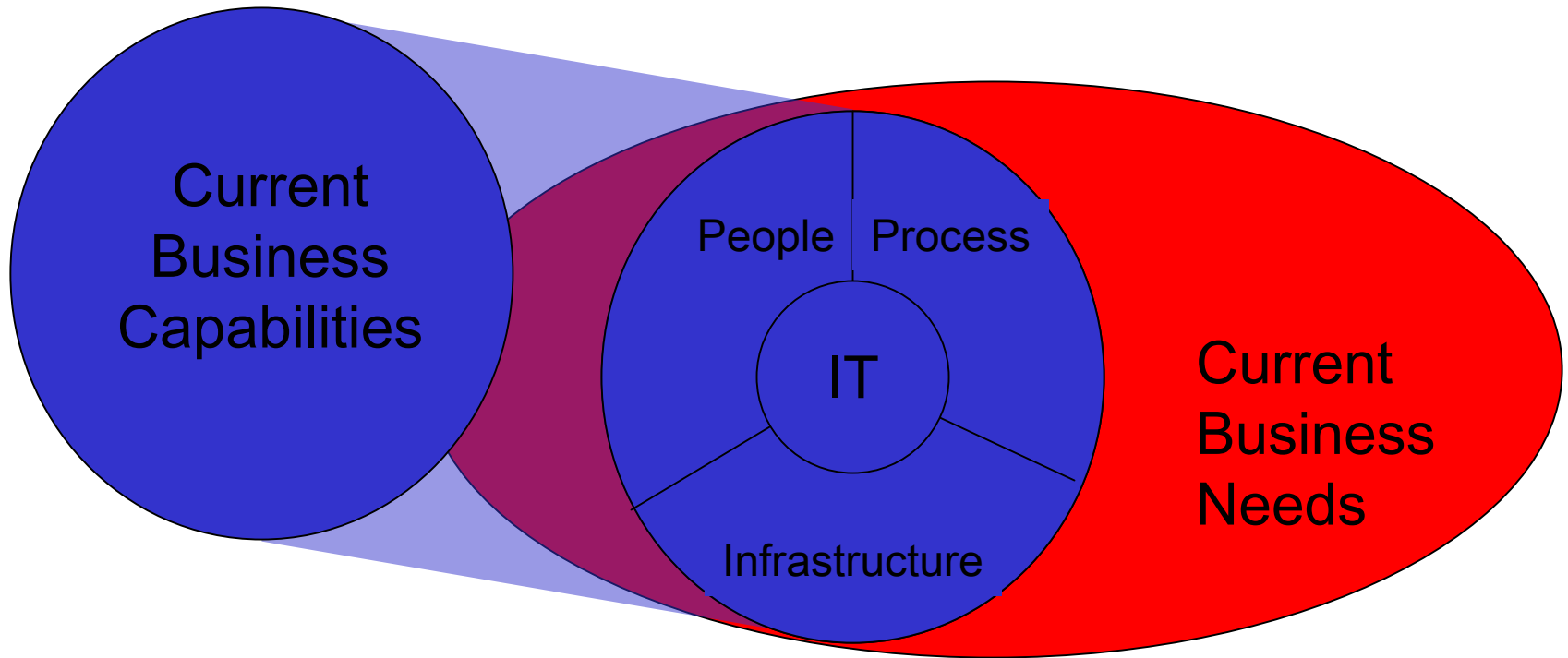
# Why Business Cases?

- Responsibility to spend taxpayer money wisely
- Increased demand and opportunities
- Limited state resources – financial and human capital
- Gauge the appropriate solution based on the size of the issue and risks/rewards of the solution
- Consistent basis for prioritizing and funding projects

# What is a Good Business Case?

- A compelling argument for change
- Selling & Communication Tool – Tells the what, why, when, and how...and why not
- Analysis Tool – Required to define and document the “best” solution given the “agreed upon” reality
- Contextual Anchor – Provides basis for making and defending decisions & changing direction
- Expectations Manager – Defense against the “inevitable” questions

If I show a business case based on productivity improvements – then I'll lose headcount



“All models are flawed, some are useful”

W.E. Deming

# Concerns & Myths

- Business Cases are only useful in the private sector
- Government projects can't be cost justified because the benefits are intangible
- If it's a legislative mandate, there is no point in taking the time to build a business case

# Basic Assumptions

- The “problem” (aka issue, opportunity) is not limited to IT – nor is the solution
- If there’s an issue, it has a cost, and that cost can be expressed in dollars
- If a solution resolves or prevents an issue, it has a dollar value
- If the solution costs more than the problem, find another solution, (or reexamine the problem)



# PROBLEM STATEMENT

What problem(s) need to be solved?

For example

- Running out of capacity  $\leq$  increase in demand
- Lack of timely delivery to citizens
- Legislative mandate
- New federal compliance requirement
- Error prone workflow

# PROPOSED SOLUTION

Description that includes

- Business process changes
- Software/hardware components
- Integration of applications – network, database components
- What portion will be put out for bid
- Risks

# COST OF SOLUTION

## Total Cost of Ownership

- Human resource (FTE/Contractor)
- Hardware
- Software
- Vendor
- Five year maintenance & operations

# Other Financial Data Required

- Source of funding
  - State
  - Federal
  - Receipts

# BUSINESS VALUE OF SOLUTION

- Quantitatively estimate how stated problem(s) solved
- For example
  - expanded capacity
  - improvement in transaction cost/rate
  - savings due to less errors
  - non-compliance penalties saved

# COST OF DOING NOTHING

- Estimate the maintenance and operational cost of the current environment for the first five years of the proposed solution's deployment
- Include any additional cost to keep up with growing/changing needs

# COST/BENEFIT ANALYSIS

- Investment over the number of years from initiation through deployment
- Benefits over the first five years of proposed deployment, i.e., comparison of proposed (new) with current (old)
- Apply undiscounted cash flow methodology

# COST/BENEFITS (cont)

## Cost

$$\begin{aligned}\text{Total cost} = & \text{Cost year}_1 + \text{cost year}_2 + \text{cost year}_3 \dots \\ & + \text{M\&O}_1 + \text{M\&O}_2 + \dots + \text{M\&O}_5\end{aligned}$$

where M&O = cost of maintenance and operations

## Benefits

$$\begin{aligned}\text{Total benefits} = & \text{benefits year}_1 + \text{benefits year}_2 + \dots \\ & \text{benefits year}_5\end{aligned}$$



# COST/BENEFITS (cont)

Potential Benefits each year

- $M\&O_{REPLACED}$
- $Infrastructure\ Cost_{OLD} - Infrastructure\ Cost_{NEW}$   
(e.g., Headcount to serve additional citizens)
- Additional revenue collected
- Additional (or not defaulted) federal grants if mandate satisfied
- Cost savings due to error reduction
- Productivity/time savings of state employees or citizens

# COST/BENEFITS (cont)

Benefits – Investment = Cash Value (undiscounted cash value of the project)

- Positive is good!

This is a financial basis/factor in comparing

- Alternative solutions to same problem
- Other projects

# Problem Statement Proposed Solution

Project  
Information  
Tab

Initiation Phase

Project Charter

Business Issues and Business Goals

Business Issues

Business Goals

Project Definition

Project Goals

Project Deliverables

## Business Issues:

What business factors led to the proposal of this project?

Examples: Opportunities, Mandates

## Business Goal:

What business function will this project achieve?

Examples:

Quality of service (i.e., improve customer service)

Reduction of customer complaints

Improve agency's public image

reduce support work (i.e., reassign support staff to more productive work)

Improve public safety

Compliance with new federal guidelines

# Proposed Solution (cont)

## Project Deliverables:

Those products or services that will result from work on this project.

Examples:

Implementation of software or hardware

Training

Improved business process

Change to the organization

Improved service

Project  
Information  
Tab

Project Deliverables

Items out of Scope (scope exclusions)

## Items not in Scope:

Specific items that will not be part of the project work.

Example:

Project will exclude the building of races and runs within the facility required for the installation of cables required to connect workstations to the internet.

Project Organization and Roles

## Proposed Solution (Cont.)

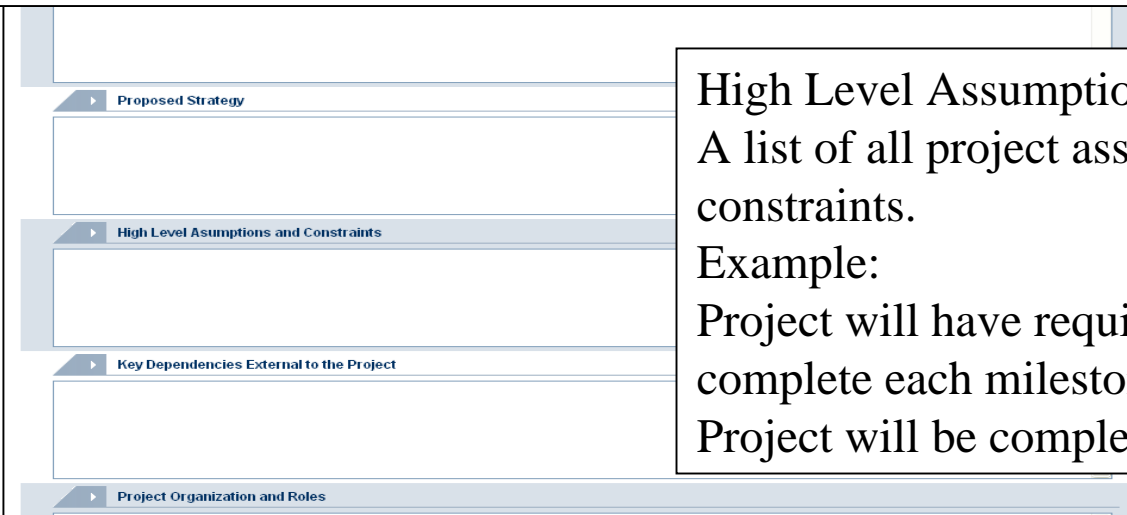
### Proposed Strategy:

A high-level work plan of the major tasks to be performed.

### Example:

Development of a Project Plan (Statement of Work, System Detail Design, Training Plan, Schedule, etc.) Release of an Request for Proposal

Project  
Information  
Tab



High Level Assumptions and Constraints:  
A list of all project assumptions and constraints.

### Example:

Project will have required resources to complete each milestone  
Project will be completed by ....

### Key Dependencies external to the project:

The success of the project may depend upon another project, or product, or service. These may have been listed as assumptions or constraints, however, it is wise to segregate these into a separate category.

### Example:

Installation of the raised floor in the new facility is required to begin the installation of this project's SAN, servers.

## Proposed Solution (Cont.)

### Project Organization and Roles:

Identification of specific organizations and resource roles that are key to this project's success. These also may have been listed as assumptions or constraints, however, it is wise to segregate them into a separate category.

### Example:

Organization charts

Roles and responsibilities matrix:

Names of individuals recommended for key positions on the project to serve as:

steering committee, quality assurance, programmer, data base analyst, business process change manager, project manager, training manager, documentation manager, testing team, business liaison manager, etc.

Define what each role will accomplish and the authority assigned to each role.

Project  
Information  
Tab

The diagram illustrates a software interface. At the bottom, there is a horizontal tab labeled 'Project Organization and Roles'. Above this tab, on the right side, is a vertical stack of four empty rectangular input fields, each with a small downward-pointing arrow on its right side, suggesting a dropdown menu or a list of options.

# Alternative Solution (over \$10 Million)

Project  
Information  
Tab

**Enterprise Architecture Questionnaire**

Select the Common Shared Technical Infrastructure and Services

Will the project include security enhancements for an existing system?

Which clients will require login functionality?

What State Business Infrastructure Systems will this system interface with?

Which staffing approach will be utilized to deliver this system?

How will the functionality for this system be delivered?

**Alternatives Analysis Completed (Required only if Invested)**

Alternatives Analysis Completed

**Project Manager Interview Completed (To be completed)**

Project Manager Interview Completed

**Service Component Reference Model (To be completed)**

Complete the questions below for your analysis of alternative approaches.

Describe the alternatives you considered.

Alternative	Description
Proposed Project	
Status Quo	
Alternative 1	
Alternative 2	

Compare the alternatives in the table below

Alternative	Lifecycle Cost Estimate	Describe the Risks	Describe the Benefits
Proposed Project			
Status Quo			
Alternative 1			
Alternative 2			

Why was the proposed project chosen from the alternatives?

# Business Value

Strategic Information Tab

Statewide Key  
Performance  
Indicators

**Umit Portfolio Management**  
Builder / Edit Project 'fdata'

Builder Optimizer Planner Dashboard About Help Log Out  
Settings My Scorecard Resource Pool Preferences Reports

Project Info Budget Cost Budget Resource Benefit Estimates Strategic Impact

Grow Self-Service

Build and enhance capabilities to allow the public to conduct state business online.

**Extreme:** Over 1 Million person-hours savings (calculated by taking the number of users of the application [\[...\]](#))

**Strong:** 100K to 1 Million person-hours savings (calculated by taking the number of users of the application [\[...\]](#))

**Moderate:** 10K to 100K person-hours savings (calculated by taking the number of users of the application times [\[...\]](#))

**Low:** 1K to 10K person-hours savings (calculated by taking the number of users of the application times [\[...\]](#))

**None:** Under 1K person-hours savings (calculated by taking the number of users of the application times [\[...\]](#))

KPI Attributes

Ensure Legal and Regulatory Compliance

Ensure that there is a proper governance framework in place to ensure compliance with laws and [\[...\]](#)

**Extreme:** Over \$20M effect (in repercussions of non-compliance - loss of funds, penalties, etc.)

**Strong:** \$5M to \$20M effect (in repercussions of non-compliance - loss of funds, penalties, etc.)

**Moderate:** \$1M to \$5M effect (in repercussions of non-compliance - loss of funds, penalties, etc.)

**Low:** \$100K to \$1M effect (in repercussions of non-compliance - loss of funds, penalties, etc.)

**None:** Under \$100K effect (in repercussions of non-compliance - loss of funds, penalties, etc.)

KPI Attributes

Revenue Generation (Net)

TBD

**Extreme:** Over \$100M in Revenue

**Strong:** \$10M to \$100M in Revenue

**Moderate:** \$1M to \$10M in Revenue

**Low:** \$100K to \$1M in Revenue

**None:** Under \$100K in Revenue

KPI Attributes

**Umit Portfolio Management**  
Builder / Edit Project 'fdata'

Builder Optimizer Planner Dashboard About Help Log Out  
Settings My Scorecard Resource Pool Preferences Reports

Project Info Budget Cost Budget Resource Benefit Estimates Strategic Impact

Financial Benefits

☐ Show/Hide cost centers

Levels	2006	2007	2008	2009	2010	2011
<input checked="" type="checkbox"/> TOTAL BENEFITS - Fiscal Year	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<input checked="" type="checkbox"/> Enhanced Revenues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<input checked="" type="checkbox"/> Operational or Other Savings	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<input checked="" type="checkbox"/> Avoided Costs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<input checked="" type="checkbox"/> Other Monetary Benefits	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Drill Down

Go To: Level 2

Update Cancel

Benefit Dollars  
by year, and by  
type

Benefits Estimate Tab



# Costs / Savings

Strategic Information Tab

► Cost Savings (Net)

TBD

**Extreme:** Over \$10M in Cost Savings

**Strong:** \$1M to \$10M in Cost Savings

**Moderate:** \$100K to \$1M in Cost Savings

**Low:** \$50K to \$100K in Cost Savings

**None:** Under \$50K in Cost Savings

► KPI Attributes

► Unified Services

TBD

**Extreme:** 5 Services Combined

**Strong:** 4 Services Combined

**Moderate:** 3 Services Combined

**Low:** 2 Services Combined

**None:** No Services Combined

► KPI Attributes

Activity Based Cost

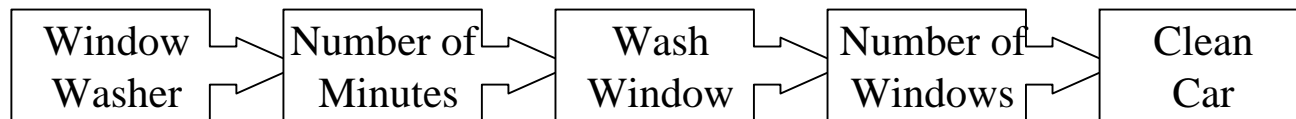
Traditional	ABC
Salaries \$100	Clean door \$40
Equipment \$80	Paint door \$75
Supplies \$20	Inspect door \$75
Overhead \$45	Send door to assembly \$55
TOTAL \$245	TOTAL \$245

Identify costs by how they are consumed

## How the project team can use ABC



- Resources are people and machines
- Resource Driver is the measure of the frequency and the intensity of the demands placed on resources by activity
- Activities are the processes performed by people and machines
- Activity Drivers measure the frequency and the intensity of the demands placed on activities by cost objects – enabling costs to be assigned to cost objects
- Cost objects are the products, services produced
- Cost drivers are the factors that affect the cost of the activity, e.g., Quality



Cost driver is the quality of cleanliness required by the company